



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 4/4/2003

GAIN Report #KS3011

# **Korea, Republic of**

## **Market Development Reports**

### **Marketing Opportunities in the Provincial Cities**

### **2003**

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#### **Report Highlights:**

This report provides information about the market for U.S. processed food products outside of the capital city of Seoul. Increasingly, FAS Cooperators, MAP participants, and exporters are expanding their efforts to include these other major Korean urban areas. While Seoul marketers and consumers lead the country in innovation, the ATO finds growing interest in provincial areas for U.S. processed food products.

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Seoul ATO [KS2], KS

## **MARKETING OPPORTUNITIES IN THE PROVINCIAL CITIES**

### **INTRODUCTION**

There are seven metropolitan cities in Korea: Seoul, Busan, Incheon, Daegu, Kwangju, Daejeon and Ulsan. In order to be designated as a metropolitan city in Korea the population of the city must exceed one million. The combined population of these six metropolitan cities except Seoul (of which the city population is 10 million) is about 13 million. The Seoul-Incheon "corridor" comprises a largely urban area with a population of about 22 million people.

Although the markets in the cities outside Seoul are still small, they are growing. There is potential for faster growth of imported food products in these provincial areas, while the future growth rate of the market in Seoul slows. In the past, many imported processed foods were not widely available in the retail sector of provincial metropolitan cities, but thanks to the launching of discount stores and large-scale department stores in recent years, many processed foods are now available at these outlets in these other cities. It is assumed that about 60 percent of total imported processed foods are consumed in the Seoul urban area described above, and the remaining 40 percent are consumed in the local metropolitan cities and provinces. In the past, consumers in the provincial cities demonstrated a more negative, "nationalistic" reaction than those in Seoul towards imported foods, but these attitudes are softening.

ATO Seoul has done some promotional activities in provincial cities, such as table top shows, over the past several years. We have also surveyed the markets in these major cities, and determined that consumer demand for processed imported food products is on the increase. Of course, most of these food products are imported by traders located in Seoul and its neighboring Gyeonggi province, but are distributed by the head offices of retail chains, or private importer/distributors located in Seoul, or wholesalers in the local cities. For a U.S. exporter, the best means to tap these markets are through an importer, who either has distribution to the provinces (this is rare), or can access a distribution channel with a partner or customer.

ATO Seoul plans to give more attention to the cities outside Seoul, visit the cities regularly, survey the market and expand some promotional activities in the future, if possible, together with cooperators, importers and exporters when possible. Retail managers in these areas have opined that they are often overlooked by the distribution chain, and that their customers are more willing to try imported food products than Seoul "managers" currently believe. Many retail outlets, whether part of national or regional chains, are currently in a very competitive environment, and welcome new products that can help differentiate them from their competition.

### **EXPLORING THE PROVINCIAL CITIES**

The Korean government is now trying to develop Pusan and Incheon as the logistical and financial hubs of Northeast Asia. Seoul metropolitan city is already overpopulated, and traffic is congested (a fact to which any visitor will attest). Accordingly, the new government of Korea has proposed to move the administrative capital to Chungcheong-do, Daejeon metropolitan city's neighboring province (note that this is only a proposal).

The Korean *Report on Survey of Wholesale and Retailer Trade*, issued February 2002, indicates that the annual sales of retailers for food, food stuff and cigarettes in Seoul amounted to \$2.63 billion, \$871 million in Busan, \$330 million in Daegu, \$563 million in Incheon, \$375 million in Gwangju, \$295 million in Daejeon, and \$126 million in Ulsan in 2000 (The average exchange rate was 1,130.6 won against U.S. dollar in 2000).

Advantages	Challenges
Emerging markets, possible higher growth rates	The market is still small
Good infrastructure	Few direct importers of processed foods
Large population and hubs of the adjacent provinces and peripheral cities	U.S. Exporters and Korean Importers not targeting these markets yet
Many manufacturing facilities	Economy is weaker, compared to Seoul

The Estimated Gross Regional Domestic Product (GRDP at current prices) in 2001 and estimated population in 2002

City	GRDP (\$Billion)	Percent	Population (Million)	Percent
Pusan	25.4	6.1%	3.70	7.8%
Daegu	14.3	3.5%	2.54	5.3%
Incheon	19.8	4.8%	2.59	5.4%
Gwangju	9.5	2.3%	1.41	3.0%
Daejeon	9.8	2.4%	1.44	3.0%
Ulsan	21.1	5.1%	1.06	2.2%
<b>Subtotal</b>	<b>99.9</b>	<b>24.2%</b>	<b>12.74</b>	<b>26.7%</b>
<b>Seoul</b>	<b>88.5</b>	<b>21.4%</b>	<b>10.04</b>	<b>21.1%</b>
<b>Gyeonggi province</b>	<b>86.5</b>	<b>20.9%</b>	<b>9.62</b>	<b>20.2%</b>
<b>8 other provinces</b>	<b>139.1</b>	<b>33.5%</b>	<b>15.24</b>	<b>32.0%</b>
<b>Total</b>	<b>414.0</b>	<b>100%</b>	<b>47.64</b>	<b>100%</b>

\* This table does not include the productions of national defense and import duties

\*Sources: Korean Statistical Yearbook 2002, and Social Indicators in Korea 2002

Seoul (606 km<sup>2</sup>), Incheon (980 km<sup>2</sup>) and Gyeonggi Province (10,137 km<sup>2</sup>) adjoin together, accounting for 11.8% of the total land of 99,538 km<sup>2</sup>. The combined population of 22.25

million of these three places accounts for 46.7% of the total population in Korea.

#### Annual Restaurant Sales by Metropolitan Cities in 2000

City	No. of Restaurants	No. of workers	Annual Sales (\$Million)	Percent/Sales
Busan	49,137	118,464	2,801	8.8%
Daegu	31,049	71,731	1,378	4.4%
Incheon	27,086	64,996	1,358	4.3%
Gwangju	15,747	40,217	1,081	3.4%
Daejeon	16,656	41,915	992	3.1%
Ulsan	13,195	30,360	602	1.9%
<b>Subtotal</b>	<b>152,870</b>	<b>367,683</b>	<b>8,211</b>	<b>25.9%</b>
<b>Seoul</b>	<b>111,437</b>	<b>331,676</b>	<b>8,247</b>	<b>26.1%</b>
<b>Gyeonggi province</b>	<b>95,251</b>	<b>242,650</b>	<b>5,208</b>	<b>16.4%</b>
<b>8 other provinces</b>	<b>211,018</b>	<b>488,467</b>	<b>9,992</b>	<b>31.6%</b>
<b>Total</b>	<b>570,576</b>	<b>1,430,476</b>	<b>31,658</b>	<b>100%</b>

Sources: Report on the Survey of Wholesale and Retail Trade 2000, published in February 2002.

The annual restaurant sales in Seoul Metropolitan City were greater than those of 6 local metropolitan cities in 2000.

#### Annual Sales of Wholesale and Retail Trade by Metropolitan Cities in 2000

City	No. of Establishments	No. of workers	Annual Sales (\$Billion)	Percent/Sales
Busan	83,752	212,126	35.1	9.8%
Daegu	54,281	133,919	17.3	4.8%
Incheon	39,406	100,145	10.4	2.9%
Gwangju	26,722	73,960	8.3	2.3%
Daejeon	26,874	72,547	8.0	2.2%

Ulsan	16,855	43,937	4.1	1.1%
<b>Subtotal</b>	<b>247,890</b>	<b>636,634</b>	<b>83.2</b>	<b>23.1%</b>
<b>Seoul</b>	<b>237,985</b>	<b>816,594</b>	<b>170.2</b>	<b>47.3%</b>
<b>Gyeonggi Province</b>	<b>129,604</b>	<b>355,987</b>	<b>46.9</b>	<b>13%</b>
<b>Eight other provinces</b>	<b>301,206</b>	<b>684,002</b>	<b>59.8</b>	<b>16.6%</b>
<b>Total</b>	<b>916,685</b>	<b>2,493,217</b>	<b>360.1</b>	<b>100%</b>

Sources: Report on the Survey of Wholesale and Retail Trade 2000, published in February 2002.

The annual sales of wholesale and retail trade in Seoul Metropolitan City alone more than doubled than those in 6 local metropolitan cities and accounted for 47.3 percent of the total sales in Korea in 2000.

## BUSAN MARKET OVERVIEW

Busan (2002 population; 3.7 million and land size; 762 sq. km.) is a port city located in the southern part of Korea, about 420 km from Seoul, and is the second-largest city and principal port of South Korea handling most of South Korea's foreign trade. It is also the world's third largest container port. The Korean Government has plans to develop Busan into an integrated logistics hub with multiple functions including trade and international business. These plans include designating Busan Port as a special economic zone (SEZ). If the SEZ does materialize, Busan will attract investments from multinational firms in the fields of information technology, biotechnology, the motion picture industries, and the environment.

Busan is the hub of Gyeongnam province of which population combined is about 7 million. Currently, Busan has retail, wholesale, tourism, restaurant, and manufacturing industries. Busan is also well-known for its beaches in Korea and attracts millions of vacationers in summer. Busan Metropolitan City also hosted the Asian games in 2002. Busan is served by Gimhae International Airport. International flights are mostly to Japan (Tokyo, Nagoya, Osaka and Fukuoka), but also include Bangkok and Shanghai. Domestic flights are between Busan and Seoul, and 5 other cities in Korea. Other transportation systems such as trains, express buses and ferries are available between Busan and major cities in Korea.

ATO Seoul visits Busan, holds table top shows, and conducts surveys on the retailer market annually, including department stores such as Lotte, Top Mart (a local supermarket chain), discount stores, hotels, and so forth. The annual sales of department stores in Busan were estimated at \$1,132 million, and the sales of discount stores were \$1,370 million in 2002. The annual sales of retailers for food, food stuff and cigarettes in Busan was \$871 million in 2000.

## **DAEGU MARKET OVERVIEW**

Daegu (2002 population; 2.54 million and land size; 886 sq. km.) located in the south of Korea, about 300 km to the south from Seoul and 120 km to the north from Busan is the third or fourth largest city in Korea, and is a transportation hub, a major industrial center, and a primary collection and distribution point for an extensive agricultural and mining region. Daegu Metropolitan City is the center of Kyung-buk Province (population: 2.8 million) where there are Gumi Industrial complex, Pohang city where the largest steel company is located, and Kyungju city which was the capital city of the Shilla Dynasty for 1,000 years, and is accordingly a tourist place which attracts many Koreans and foreigners.

Daegu has important textile, car and machine industries. The city was nominated as a Solar City by the International Energy Agency under the umbrella of the OECD in 2000 and as a result is striving to be recognized as an eco-friendly city. International flights are available between Daegu and Osaka in Japan, and Shanghai and Qingdao in China, and domestic flights are available to/from Daegu. Trains and express buses are also available between Daegu and major cities.

ATO Seoul conducted a survey on the Daegu retail market in 2002 such as Daebaek Plaza which is the largest local department store, Walmart, major food wholesalers, Outback, the Branch Office of Korea Tourist Supply Center, hotels, etc. The annual sales of department stores in Daegu Metropolitan City were estimated at \$822 million, and the sales of discount stores were estimated at \$1,035 million in 2002. The annual sales of retailers for food, food stuff and cigarettes in Daegu was \$330 million in 2000.

## **INCHEON MARKET OVERVIEW**

Incheon (2002 population; 2.59 million and land size; 980 sq. km.) is located only 40 km west of Seoul, the country's second largest port, a gateway of air and sea to the capital, and one of the fastest growing cities in Korea. Incheon has an ice-free harbor (protected by a tidal basin) and is the port and commercial center for Seoul. Incheon's economy is heavily dependent on shipping and the transshipment of goods. Incheon frequently considered as a market linked to that of Seoul, and is more likely to get distribution of imported products from Seoul based importers than the other cities mentioned in this report.

The city is also the site of a new airport and the terminus of the new west-coast highway of South Korea. Incheon is one of South Korea's major industrial centers: iron, steel, coke, light metals, plate-glass, textiles, chemicals, and lumber are among its manufactures. The Korean Government is developing Incheon as the logistical and financial hub of the Northeast Asia. Retail, wholesale, tourism, restaurant, manufacturing, and fishing are also important industries. Expressway links have made Incheon and Seoul into one large urban region.

Incheon Port is to become a tariff-free zone in 2003: The government designated the Port of

Incheon as a customs-free area beginning January 1, in an effort to turn it into a global logistics hub. Products that pass through the tariff-free zone will be exempted from customs duties—a big boon for logistics and shipping firms. The Incheon International Airport and the expansion of port facilities will bring Incheon to the forefront of growing international trade and banking.

The annual sales of department stores in Incheon Metropolitan City were estimated at \$831 million, and the sales of discount stores were estimated at \$923 million in 2002. The annual sales of retailers for food, food stuff and cigarettes in Incheon was \$563 million in 2000.

## **DAEJEON MARKET OVERVIEW**

Daejeon (2002 population; 1.44 million and land size; 540 sq. km) is located in the center of South Korea, about 170 km to the south of Seoul, the fifth largest city in Korea, and is the gateway between Youngnam Province (Southeast Area of Korea) and Honam Province (Southwest of Korea) and is the hub of national transportation and Chungcheong Province of which population is about 3.5 million in addition to about 1.44 million of Daejeon Metropolitan City.

The new president of Korea pledged in his presidential campaign that he would move the administrative capital of Korea to Chungcheong area. Accordingly the land prices are skyrocketing in this area. If the administrative capital of Korea is moved to Chungcheong area, Daejeon Metropolitan City and its peripheral areas will be developed as the hub of South Korea. Daejeon is known for its tobacco, cigarettes and ginseng products.

The annual sales of department stores in Daejeon Metropolitan City were estimated at \$581 million, and the sales of discount stores were estimated at \$495 million in 2002. The annual sales of retailers for food, food stuff and cigarettes in Incheon was \$295 million in 2000.

## **KWANGJU MARKET OVERVIEW**

Kwangju (2002 population; 1.41 million and land size; 501 sq. km) is located southwest of Korea, about 370 km from Seoul and is the sixth largest city in Korea. Kwangju Metropolitan City is the hub of Honam province of which population is about 4 million in addition to about 1.41 million of Gwangju city. The Growth Regional Domestic Product of Gwangju city accounted for only 2.3 percent in 2000, the lowest among the 7 metropolitan cities in Korea. However, it was the second fast growing city in terms of the growth regional domestic product in 1999. In 1999 Gwangju exported only 2 percent of the total exports and imported only 1.5 percent of the total imports in Korea.

In 2001 ATO Seoul had meetings with the largest food wholesaler and second largest food wholesaler in Gwangju city who said that they target the niche market in Gwangju city since most food products are distributed by the franchisers in Seoul to their franchisees in the region. Also met with the Team Leader of Food Section of a department store who said that their Kwangju store is the 4<sup>th</sup> largest store in terms of sales volume out of their 13 stores across the

country. He also added that there is big potential for imported food in Gwangju unlike Seoul where the market is almost saturated.

The big three players of department stores chains in Korea have their outlets in Gwangju and several domestic discount stores have their outlets here too. The annual sales of department stores in Gwangju Metropolitan City were estimated at \$730 million, and the sales of discount stores were estimated at \$391 million in 2002.. The annual sales of retailers for food, food stuff and cigarettes in Gwangju was \$375 million in 2000.

## **ULSAN MARKET OVERVIEW**

Ulsan (2002. Population; 1 million and land size; 1,056 sq. Km) is located at the southeastern end of the Korea Peninsula, is the seventh largest city in Korea, and is a special industrial zone. Ulsan is a center for automobile, petrochemical and shipbuilding industries. Hyundai Motor Company is located in Ulsan and as a single unit is the World's largest, and is the center for the auto related industry and automotive parts. And a total of 120 enterprises including the world renowned BASF, DuPont and SK are located here. A total of 3 shipyards are located in Ulsan. The world's largest Hyundai Heavy industries and 13 companies specializing in repairs and shipbuilding parts.

Ulsan port has a 90 berth capacity and handles about 135 million tons of ocean cargo. This accounts for 19.3 percent of the nation's total cargo handling. The port also handles 53 percent of the nation's entire petroleum imports and 45.7 percent of the nation's total auto exports. When the construction of a new port with a capacity of 29 berths, including 4 container berths is completed in 2011, the port will add an annual cargo handling capacity of 30 million tons. The city is conveniently located within one or two hour drive to the metropolitan areas of Busan and Daegu.

The annual sales of department stores in Ulsan were estimated at \$551 million, and the sales of discount stores were \$512 million in 2002. The annual sales of retailers for food , food stuff and cigarettes in Ulsan was \$126 million in 2000.

## **KEY CONTACTS AND FURTHER INFORMATION**

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